



Malaysia Budget 2021
- Tax snapshots

Friday, 6 November 2020

EY

Building a better
working world

Highlights



Budget 2021 was announced on Friday, 6 November 2020. Themed “Resilient as One, Together We Triumph”, Budget 2021 focused on three integral goals which are *rakyat*’s well-being, business continuity and economic resilience. This budget builds on the targeted phased economic recovery plan which was introduced previously, centred on the 6R approach of Resolve, Resilience, Restart, Recovery, Revitalize and Reform to protect the lives and livelihood of the *rakyat*.

The tax highlights of Budget 2021 include:

- ▶ Reduction in personal income tax rate by one percentage point for tax resident individuals for chargeable income in the band of RM50,001 to RM70,000
- ▶ Preferential 15% personal tax rate for non-Malaysian citizens holding key positions in companies that relocate their operations to Malaysia under the PENJANA incentive package
- ▶ Principal Hub incentive will be extended to 31 December 2022 with relaxation of certain conditions such as headcount and annual operating expenditure.
- ▶ Introduction of the Global Trading Centre incentive which will provide a preferential corporate income tax rate of 10% for five years, which can be extended for an additional five years
- ▶ Preferential corporate income tax rate of 0% to 10% for 10 years for manufacturer of pharmaceutical products
- ▶ Extension and expansion of existing tax incentives that have worked well. In particular, the preferential tax rates of 0% to 10% for selected manufacturers to relocate their operations to Malaysia will be extended to companies in selected services sectors and the application period will be extended to 31 December 2022

Please find below a snapshot of the key tax proposals based on the Budget 2021 speech.

Proposals affecting individuals

Reduction in personal income tax rate

- ▶ For tax resident individuals within the chargeable income band of RM50,001 to RM70,000, the tax rate will be reduced by one percentage point. This is effective from year of assessment (YA) 2021.

Changes to Employee Provident Fund (EPF) contribution rate

- ▶ The employee's minimum contribution rate for EPF will be reduced from 11% to 9% from 1 January 2021 to 31 December 2021.

Preferential tax rate

- ▶ A tax rate of 15% for five consecutive years is proposed for non-Malaysian citizens holding key positions / C-Suite positions in companies who relocate their operations to Malaysia under the PENJANA incentive package.
- ▶ This tax incentive is limited to five non-resident individuals per company.
- ▶ Applicable for applications received by the Malaysian Investment and Development Authority from 7 November 2020 until 31 December 2021.

Increase and expansion of existing personal tax relief

Tax relief	Current	Proposed
Medical expenses for serious diseases for self, spouse or child (including full medical check-up)	RM6,000 (including RM500 for full medical check-up)	RM8,000 (including RM1,000 for full medical check-up) Expanded to include expenses incurred on vaccines of up to RM1,000 This is effective from YA2021.
Medical expenses for parents	RM5,000	RM8,000 This is effective from YA2021.
Education fees (self)	RM7,000 Any course of study up to tertiary level, other than a degree at Masters or Doctorate level, undertaken for the purpose of acquiring law, accounting, Islamic financing, technical, vocational, industrial, scientific or technological skills or qualifications; or any course of study at Masters or Doctorate level.	RM7,000 Expanded to include upskilling courses limited to RM1,000. This is effective for YA2021 and YA2022.
Disabled spouse	RM3,500	RM5,000 This is effective from YA2021.

Proposals affecting individuals

Increase and expansion of existing personal tax relief (continued)

Tax relief	Current	Proposed
Lifestyle	RM2,500 For purchase of reading materials, personal computer, smartphone or tablet, sports equipment, gym membership and internet subscription	RM3,000 Expanded to include RM500 for expenses relating to sports, including participation in sports competition. Also expanded to include expenses on electronic newspaper This is effective from YA2021.
Private Retirement Scheme	RM3,000 Up to YA2021	RM3,000 Extended up to YA2025
Amount deposited into Skim Simpanan Pendidikan Nasional (SSPN) for taxpayer's child	RM8,000 Up to YA2020	RM8,000 Extended up to YA2022

Increase and expansion of existing personal tax exemption

Tax exemption	Current	Proposed
Compensation for loss of employment	RM10,000 per year of completed service	RM20,000 per year of completed service for YA2020 and YA2021
Investment in Equity Crowdfunding	None	Tax exemption on aggregate income equal to 50% of amount invested, up to a maximum RM50,000 for each YA The deduction is limited to 10% of aggregate income (subject to meeting the relevant conditions). For investments made from 1 January 2021 to 31 December 2023

Proposals affecting individuals

Returning Expert Programme

Tax incentive	Current	Proposed
Returning Expert Programme (REP)	Flat rate of 15% on employment income for five consecutive years. Applications to be received by TalentCorp up to 31 December 2020	Flat rate of 15% on employment income for five consecutive years. Applications period extended to 31 December 2023

Proposals affecting businesses

Corporate tax

Further deduction on remuneration paid to senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependants

- ▶ Further tax deduction to employ senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependants to be extended for five years to YA2025

Income tax exemption for Sustainable and Responsible Investment (SRI) Sukuk Grant

- ▶ To encourage the issuance of SRI sukuk and bonds which meet the ASEAN Green, Social and Sustainability Bonds Standard in Malaysia, the existing income tax exemption for Green SRI Sukuk Grant will be expanded to all types of SRI sukuk and bonds approved by the Securities Commission.
- ▶ This income tax exemption will also be extended for five years.
- ▶ Applicable for applications received by the Securities Commission from 1 January 2021 to 31 December 2025

Extension of Wage Subsidy Program (WSP) to employers in tourism sector

- ▶ WSP to be extended for three months for the tourism sector at the rate of RM600 per month for each employee with monthly income of RM4,000 and below
- ▶ Employee limit under WSP increased from 200 to 500 employees

Proposals affecting businesses

Incentives

Introduction of the Global Trading Centre incentive

- ▶ Preferential income tax rate of 10% for five years, extendable for a further five years
- ▶ For applications received by Malaysian Investment Development Authority (MIDA) from 1 January 2021 to 31 December 2022

Manufacturers of pharmaceutical products

- ▶ Preferential income tax rate of 0% to 10% for 10 years
- ▶ For applications received by MIDA from 7 November 2020 to 31 December 2022

Extension of application period for incentives to 31 December 2022

- ▶ Principal Hub incentive with relaxation of certain conditions such as headcount and annual operating expenditure
- ▶ 10-year income tax exemption for manufacturers relocating operations to Malaysia under the PENJANA initiative
- ▶ Incentives relating to Maintenance, Repair and Overhaul (MRO) activity for aerospace, construction and repair of ships, bionexus status and the Economic Development Corridors which are expiring this year
- ▶ Tax incentives for East Coast Economic Region, Iskandar Malaysia and Sabah Development Corridor

Extension of incentive to YA2022

- ▶ Income tax exemption relating to export of private healthcare services

Expansion / reintroduction of incentives

- ▶ Incentives for the relocation manufacturing activities under the PENJANA initiative to be expanded to selected services sectors including companies adapting Industrial Revolution 4.0 and digitalization technology (for applications received by MIDA between 7 November 2020 and 31 December 2022)
- ▶ Expansion of Authorised Economic Operator certification to logistic service providers and warehouse operators
- ▶ Tax incentives for commercialization of R&D products to be extended to private higher education institutions (for applications received by MIDA between 7 November 2020 and 31 December 2025)
- ▶ Reintroduction of tax incentives for non-resource-based R&D product commercialization activities (for applications received by MIDA between 7 November 2020 and 31 December 2025)

Other tax proposals

Indirect tax

Value-added activities in Free Industrial Zone ("FIZ") and Licensed Manufacturing Warehouse ("LMW")

- ▶ The sales value threshold for the value-added activities carried out in an FIZ and LMW is increased from 10% to 40% of the total annual sales value (for applications received by Customs from 7 November 2020)

Extension of sales tax and import duty exemption

- ▶ Sales tax exemption for the purchase of locally-assembled buses by bus operators is extended to 31 December 2022
- ▶ The import duty and/or excise duty exemption on the purchase of one CBU/CKD vehicle by Malaysians under the Returning Expert Programme is extended to 31 December 2023. The amount of duties that can be exempted is reduced from RM150,000 to RM100,000.

Enhancement to Authorised Economic Operator ("AEO") facility

- ▶ The AEO facility will be implemented at the national level with the aim of facilitating the AEO accreditation process.
- ▶ The AEO is expanded to approved logistics services suppliers and warehouse operators.
- ▶ 43 permit and trading license issuing agencies will be integrated in the AEO platform.

Tightening of trading of cigarettes effective 1 January 2021

- ▶ No new import licenses for cigarettes will be issued.
- ▶ The renewal process for existing licenses to import cigarettes will be tightened with revised conditions, including the imposition of an importation quota.
- ▶ The transshipment of cigarettes will be limited to dedicated ports only.
- ▶ Taxes will be imposed on all imported cigarettes, with the availability of drawback facility for those meant for transshipment and re-export.
- ▶ Transshipment and re-exportation of cigarettes by small boats is not allowed.
- ▶ Taxes will be imposed on cigarette and tobacco products on all duty-free islands.
- ▶ 10% excise duty will be imposed on all types of electronic and non-electronic cigarette devices including vaping products, while e-cigarette liquid will be subject to excise duty at RM0.40 per milliliter.

Tourism tax

- ▶ Tourism tax will be imposed on accommodation premises booked via an online platform operator with effect from 1 July 2021, to align with the treatment for bookings made directly with the registered accommodation premise operators.

Other tax proposals

Stamp duty

Extension of existing stamp duty exemptions until 31 December 2025

- ▶ Insurance policies and *takaful* certificates for 'Perindungan Tenang' products
- ▶ On instruments of transfer and loan agreements for rescuing contractors and original house purchasers of abandoned housing projects

Promoting ownership of first home

- ▶ On instruments of transfer and loan agreements for first residential property up to RM500,000, for SPAs executed between 1 January 2021 to 31 December 2025



EY Budget 2021 webinar

Date:

Tuesday,
17 November 2020

Time:

2:00 p.m. - 4:00 p.m.

Registration

To register your attendance, please access <https://cvent.me/kM7DaY> by 16 November 2020

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